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TAGS: EFIN ECON PREL KU
SUBJECT: KUWAIT HOSTS EIGHTH ANNUAL GCC BANKING CONFERENCE

REF: KUWAIT 806

¶1. (SBU) Summary: Kuwait hosted the Eighth Annual GCC Banking Conference on May 22-23. Organized by the National Bank of Kuwait in cooperation with the GCC Secretariat General and the Central Bank of Kuwait (CBK), the conference entitled "Managing Growth and Risk in an Era of Openness" featured insights from regional and international financial experts on the role of the Middle East in the global economy and the impact of Basel II compliance on the GCC banking sector. The conference occurred on the heels of a decision by the CBK to drop the dollar peg and return to a basket of currencies (ref A). During a May 23 panel discussion of Central Bank Governors, CBK Governor Shaykh Salem Al-Sabah outlined the factors precipitating the change while reaffirming Kuwait's commitment to the formation of the GCC Monetary Union. Saudi's Central Bank Governor reiterated GCC commitment to the 2010 deadline while the Governor of the Central Bank of Oman defended Oman's decision to opt out of the union. Robert Zoellick was the keynote speaker. End summary.

GCC Banking Sector

¶2. (SBU) The Eighth Annual GCC Banking Conference featured insights from regional and international banking sector leaders on challenges and opportunities facing the GCC financial sector today. Abdulkareem Abu Al-Nasr, CEO of Saudi,s National Commercial Bank, noted that GCC bank assets continue to increase with the current value of investment and funding opportunities estimated "between USD 28 billion and USD 45 billion." However, while in the past soaring oil prices automatically meant robust business, National Bank of Kuwait (NBK) CEO Ibrahim Dabdoub advised that banks today must also closely consider their information technology, management, and human resources requirements. Arab Banking Corporation CEO Ghazi Abdul Jawad stressed the importance of understanding the effect of demographic imbalances on the banking sector noting that expatriates represent sixty percent of the population in the GCC and forty-two percent of the population is under 15 years old. The importance of the consumer base was also alluded to by NBK GM Shaykha Al-Bahar who noted that personal loans currently represent thirty-eight percent of all GCC loans.

Kuwait Central Bank Governor Reiterates GOK Commitment to GCC Monetary Union

¶3. (SBU) On May 23, Kuwait Central Bank Governor Shaykh Salem Abdulaziz Saud Al-Sabah opened a panel discussion of GCC Central Bank Governors with a statement on the Government of Kuwait's decision to abandon the dollar peg. Al-Sabah

provided a brief historical overview explaining that the dinar was pegged to a basket of currencies from 1975 until 2002 when the GOK pegged the dinar to the U.S. dollar in anticipation of the GCC monetary union. Since 2002, he noted that the CBK intervened several times to maintain the fixed exchange rate and the rate of inflation, most recently to absorb KD 6 billion to avoid soaring inflation. Inflation, purchasing power, dependency on imports and the high cost of commodities were all factors that led to the final decision to drop the dollar in favor of a return to the basket, he said. Al-Sabah concluded by reiterating the GOK's commitment to the GCC Monetary Union.

Omani Central Bank Governor
Defends Decision to Opt Out

¶4. (SBU) Defending Oman's 2006 decision to opt out of the monetary union, Oman Central Bank Governor Hamoud Bin Sanjour Al Zidjali noted that Oman has development projects that need funding and cannot tolerate a sudden drop of a GCC single currency. For that reason, Oman decided not to join the union.

Saudi Central Bank Governor Reiterates
GCC Commitment to Meet 2010 deadline

¶5. (SBU) Saudi Central Bank Governor Hamad Bin Saoud Al-Siyari noted that GCC is committed to a single currency, exchange rate and pegging mechanism, and said that a GCC committee is working hard to meet the 2010 deadline. When asked, he added that a single currency exchange rate has not yet been determined and is still under review by the GCC

central banks. On the overall economic outlook for the GCC, Al-Siyari acknowledged that exceptional growth and public expenditures are causing inflation but predicted that this is a temporary situation as GCC central banks can manage inflation and increased liquidity through internal monetary policy.

Zoellick: Asian Expansion is a Factor

¶6. (SBU) Robert Zoellick, Goldman Sachs Group Vice Chairman and former U.S. Trade Representative and Deputy Secretary of State, identified liquidity and Asian expansion, especially vis-a-vis China, as key factors that will affect the role of the Middle East in the global economy. He stressed that markets are a tool not an end, especially in China where job creation, internal migration, education, environmental issues, and the globalization of Chinese firms will impact long-term economic performance. Turning to the U.S., Zoellick noted that domestic insecurity caused by change and the rate of change feeds into other domestic issues including the immigration debate. Some Americans long for a return to a slower time, he said, noting that some members of Congress won during the last election while running on an isolationist platform. This is not the solution, he continued, advocating the view that people need to adjust to change -- not avoid it. Responding to a question on potential risks for GCC economies, Zoellick stated that a pandemic, large-scale terror incident, rise of protectionism, struggle for soul of Islam and/or the rise of China and Asia could all impact the role of the Middle East. He predicted that the long-term global economic outlook is good but advised that countries should have adequate monetary instruments in place to deal with shocks along the way. For example, he observed that China's exchange rate policy limits that country's ability to use it as a monetary instrument to address change.

Basel II: "Have we gone too far?"

¶7. (SBU) During a panel discussion on the impact of Basel II compliance on the GCC banking sector, panel chairman and CBK Deputy Governor Dr. Nabil Al-Mannaei explained that banking services offered today are completely different from those offered ten years ago. Competition between regional and international banks is not only a factor in the GCC but elsewhere as well because of the ease of mergers. In this new economic reality, he continued, Basel II encourages supervision and obligates the development of supervisory tools to counter risk. Panelist William Coen, Deputy Secretary General of the Basel Committee on Banking

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Supervision at the Bank for International Settlements, cautioned banks and supervisors not to be complacent as risk surrounding growth and the scarcity of human resources should be considered. "Human resources training and education is not an issue affecting only this region," he said, "but an issue affecting Europe and the U.S." However, one attendee asked panelists if Basel II was simply an attempt to make a subjective science out of basic banking. Noting the high cost associated with compliance, he said "it appears we as bankers are looking for a reason not to do business" while asking panelists if the banking sector has gone too far. Cheryl Rathbun, Citigroup Director of Basel II Implementation for Europe, the Middle East, and Africa, acknowledged that there is a cost associated with compliance but lauded Basel II for aligning risk with capital for the first time.

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